(T+2) Settlement Cycle
Introductory Materials
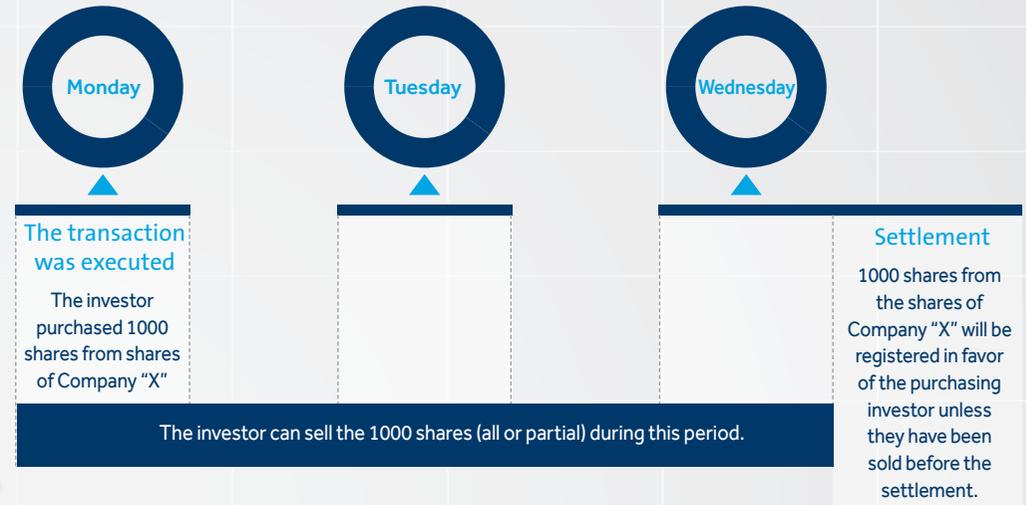
Tadawul

1. How is a transaction executed?

A transaction is executed by matching the sell order with the buy order.
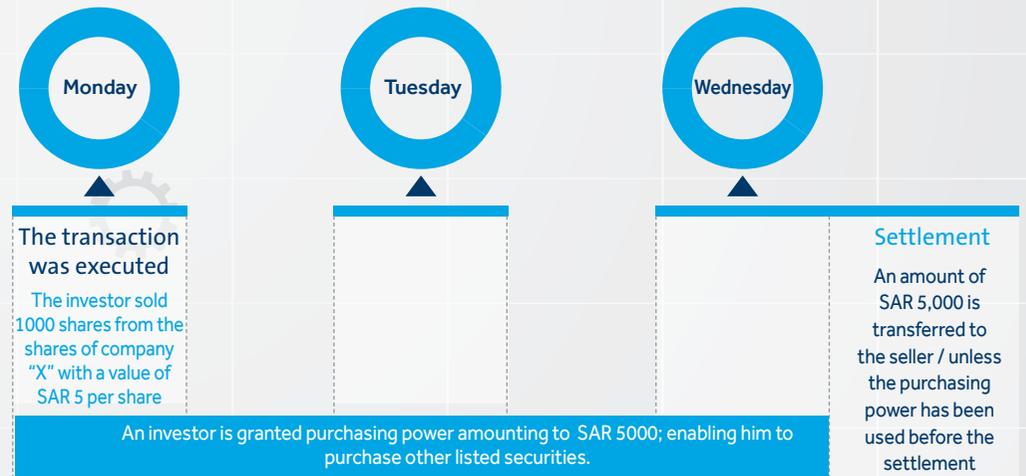
2. What is the settlement of securities?

It is the process of transferring securities of executed transactions from the seller's investment portfolio to the buyer's investment portfolio.

Example: Buy Process

Monday — Tuesday — **Wednesday**

The transaction was executed
The investor purchased 1000 shares from shares of Company "X"

Settlement
1000 shares from the shares of Company "X" will be registered in favor of the purchasing investor unless they have been sold before the settlement.

The investor can sell the 1000 shares (all or partial) during this period.

Example: Sell Process

Monday — **Tuesday** — **Wednesday**

The transaction was executed
The investor sold 1000 shares from the shares of company "X" with a value of SAR 5 per share

Settlement
An amount of SAR 5,000 is transferred to the seller / unless the purchasing power has been used before the settlement

An investor is granted purchasing power amounting to SAR 5000; enabling him to purchase other listed securities.

It is the process of transferring the value of securities for executed transactions from the buyer's investment account to the seller's investment account.

It is the period that starts when the sell and buy orders are matched, and ends when securities and cash settlements are completed.

In the new settlement cycle, all types of securities' transactions are completed after two business days following the transaction execution date; i.e. (T + 2).

3. What is the settlement of cash?

4. When is a settlement of securities completed?

5. What is meant by the duration of securities settlement cycle?

6. What is the duration of the current securities settlement cycle?

7. What is the proposed duration for the new settlement cycle of securities' transactions?

A settlement is complete when securities and cash settlements are complete.

For the stocks category, securities' settlement transactions are completed on the same day of executing the transaction, which is known as (T + 0) settlement.

As for sukuk and bonds' categories, securities' settlement transactions are completed after two business days following the transaction execution date, which is known as the (T + 2) settlement.

8. What does the letter (T) stand for? and what does the added number refer to?

The letter (T) stands for the term (Trade); i.e. transaction.

As for the added number, it refers to the duration required for completing the settlement of a transaction.

9. Does the transition from (T + 0) to (T + 2) settlement have an impact on traders in the Saudi capital market?

No, there is no impact on traders. Buyers can sell securities directly upon executing transactions with no need to wait for completing the settlement of securities.

Also, sellers gain purchasing power that enables them to buy new securities directly upon executing transactions with no need to wait for completing the settlement of securities.

10. Which types of securities will the new settlement cycle apply to?

The new settlement cycle will apply to transactions of securities listed in the market of all types (stocks, sukuk, bonds, Exchange-Traded Funds (ETFs), tradable rights), in addition to over-the-counter transactions (OTC).

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11. What is borrowing securities?

Borrowing securities is the temporary transfer of securities from its owner (lender) to an investor (borrower) with an obligation to return them back to their owner at a future agreed upon date.

12. What is short selling?

Short selling is the action of selling borrowed securities; provided that the investor returns them to the lender within an agreed upon period.

13. What is the purpose of short selling?

Short selling aims to gain profits in case prices of securities drop. For example, if you expect a drop in stock prices of a given company, you can borrow these stocks and sell them. If the price drops, you can buy back the stock at a lower price and make a profit on the difference between the selling and buying prices.

What are the advantages of applying the new (T+2) settlement cycle?

- Increasing levels of asset safety for investors, and providing enough time to verify transactions and deal with errors should they occur.

- Activating the role of market makers in the stock market

- Developing an investment environment that promotes institutional-level investments and meets necessary requirements for coping with any future changes.

- Allowing short selling on condition of borrowing equities.

- Aligning the Saudi Stock Market with leading global settlement practices, which will open up new listing opportunities for the Saudi market among other global market indexes.